

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Diaz Analyst: Darrine Distefano Bill Number: AB 866
Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 08-31-2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Child Care Program Credit/Child Care Contribution Credit/Extend Repeal Date to December 1, 2007

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 31, 2001 STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would extend the availability of the Employer Child Care Program Credit and the Employer Child Care Contribution Credit to taxable years beginning before January 1, 2007.

This bill also would change the type of contributions that may qualify for the Employer Child Care Contribution Credit.

SUMMARY OF AMENDMENTS

The August 31, 2001, amendments change the definition of "contributions" that qualify under the Employer Child Care Contribution Credit to eliminate any amounts used as part of a salary reduction agreement to pay for employee child care as part of a dependent care assistance program.

Except for this change to the definition of qualifying contributions, the recent enactment of federal child care legislation, a technical concern, and the resulting change to the revenue, the department's analysis of the bill as amended May 31, 2001, still applies.

POSITION

Neutral.

At its May 2, 2001, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input checked="" type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

09/19/01

Summary of Suggested Amendments

Amendments have been provided to correct the technical consideration.

FEDERAL LAW

Existing federal law does not currently offer any child care credit to employers similar to the credit in this bill. However, beginning in taxable year 2002, the recently enacted federal law (P.L. 107-16) will allow a tax credit equal to 25% of qualified expenses for employee child care and 10% of qualified expenses for child care resource and referral services. The maximum total credit that may be claimed by a taxpayer cannot exceed \$150,000 per taxable year.

Qualified child care expenses include costs paid or incurred (1) to acquire, construct, rehabilitate, or expand property that is to be used as part of the taxpayer's qualified child care facility; (2) for the operation of the taxpayer's qualified child care facility, including the costs of training and certain compensation for employees of the child care facility, and scholarship programs; or (3) under a contract with a qualified child care facility to provide child care services to employees of the taxpayer.

Qualified child care resource and referral expenses are amounts paid or incurred under a contract to provide child care resource and referral services to the employees of the taxpayer.

TECHNICAL CONSIDERATIONS

Amendments 1 and 2 would make minor technical corrections.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in revenue losses as shown in the following table:

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 2002 \$Millions		
2002-3	2003-4	2004-5
Minor Loss *	-5	-6

* Loss less than \$500,000.

This analysis does not consider the possible changes in employment, personal income or gross state product that could result from this measure.

Revenue Discussion

The revenue impact for this bill will be determined by the amount of qualified program expenditures and employer contributions made during any given taxable year, and the tax liabilities of the claimants.

The first full-year revenue loss has been reduced from the May 31st amendments of \$10 million to \$5 million by the removal of employer contributions made through salary reduction agreements. The latter contributions are projected to make up well over half of all contribution credits currently claimed.

Remaining revenue losses projected above, therefore, reflect direct contribution credits by employers and program credits related to start-up facilities. The reduction in revenue loss under this bill does take into account the additional federal incentive that would have applied had the salary reduction contributions continued. The revised first-year impact is composed of \$2 million for direct employer contributions, and \$3 million for program costs.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 866
As Amended August 31, 2001

AMENDMENT 1

On page 5, strikeout lines 23 and 24, and insert:
Code.

AMENDMENT 2

On page 10, line 12, after "Section 17001)", strikeout:
"and this part"